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23 May 1983

Sitrep

Poland

According to Embassy reporting, last week's Paris Club discussions resulted in decisions to press the Poles for more complete responses to questions asked last October by government creditors and to hold a "decisive" meeting in late July on whether to proceed with a debt rescheduling. The creditors' technical Working Group concluded that Warsaw's response to questions about adherence to the 1981 rescheduling agreement was inadequate. The creditors authorized another letter to Finance Minister Karcz complaining about Poland's discriminatory treatment of creditors and requesting additional information by 30 June. The Working Group will reconvene in early July to evaluate the Poles' response. Although some countries pressed for Paris Club talks with Warsaw in the interim, the creditors authorized contact by Paris Club Chairman Camdessus only if Warsaw's reply is still lacking needed data. The creditors will then hold a regular session during the week of 25 July to reach a decision on whether to reopen Polish debt rescheduling negotiations.

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The Embassy judges that the late-July meeting will be the last chance to maintain creditor unity on Polish rescheduling. The neutrals will move on their own after that although they apparently lack a consensus on timing. The Swedes and Swiss are most anxious to arrange a rescheduling while the Austrians

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indicated they may delay for a while. A move by the neutrals would likely increase pressures to reschedule among allied governments. The British representative indicated that London will find it difficult to stay out of a rescheduling after July.

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Yugoslav National Bank Governor Makic complained to the US Embassy last week about the lack of progress in completing the rescue package. He expressed concern that the problem between banks and governments over burdensharing and other legal details would delay completion of the commercial bank refinancing until after the 27 June target date. Makic expressed irritation over the banks' demand that Yugoslavia reduce its soft currency trade surplus with the USSR and Eastern Europe. He termed the demand political interference in Yugoslavia's trade policy that could jeopardize the entire arrangement when presented to the Federal Assembly. Makic also was pessimistic about obtaining the \$200 million gold-backed loan from the BIS in the near future because of continuing problems over negative pledge clauses. He said that unless disbursed soon the credit will be of little use since it must be repaid in November.

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Makic warned that further delays in completing the refinancing program would aggravate the economy's already serious shortages of imported raw materials and intermediate goods needed to support industrial production and exports. Industrial output already dropped 1.8 percent through May and further declines are expected. Makic, however, was more upbeat about balance of payments trends. Hard currency exports were up 17 percent during the first four months and prospects for tourism earnings look brighter. Nonetheless, the slide in industrial production and Belgrade's continuing failure to control inflation cast doubt on

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Yugoslavia's ability to sustain improved balance of payments
performance.

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Romania

Press reports of 20 May indicate that Romania has successfully concluded a 1983 rescheduling agreement with the Paris Club. According to the French Economics Ministry, the agreement reschedules \$217 million in principal and interest repayments due officials creditors this year. Romania agreed to repay 30 percent this year and the remaining 70 percent between mid-1986 and the end of 1990. Implicit in the rescheduling is the settlement of some arrearages and unsigned bilateral agreements from last year's Paris Club rescheduling that Bucharest had not resolved as of early May. Final terms of the 1983 agreement are similar to those negotiated with Western banks 25X1 last month for rescheduling principal due this year. According to press reports, the bank agreement will be signed in June.

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